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July 15, 2004

ROBERT U. FOSTER III
STAFF DIRECTOR

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Donaldson:

As you know, I am concerned about a number of issues relating to 529 college savings plans, including the lack of consistent transparency of fees and performance, the oversight of the plans, and reports that high fees may effectively eliminate the plans' tax benefits. My concerns have been further heightened by the July 12 report in *The Wall Street Journal* that the director of one of the nation's top-ranked 529 plans, the Utah Educational Savings Plan Trust, allegedly embezzled money from the plan's administrative funds.

I am pleased with your energetic response to my letter of last February and the subsequent establishment of the "Chairman's Task Force on College Savings Plans." Last month's hearing before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises underscored the need for substantial reform of these investment vehicles.

At the same time, I am encouraged that the College Savings Plans Network (CSPN) is developing voluntary standards to provide a framework for disclosure so that investors can better understand the plans. I strongly believe that if investors are able to discern and compare the fees associated with these plans, market forces will work to reduce those fees – so long as states do not discriminate against investors who would like to select out-of-state plans. Without adequate transparency and uniform treatment the benefits of robust competition will not be realized.

I look forward to hearing from you on the findings and the statutory and/or regulatory recommendations of the task force. In this regard, there are some fundamental reforms that I believe merit your consideration. In your response, please include your analysis of how these proposals can best be implemented, whether by legislation, Commission rulemaking, the imposition of rules or guidelines by another body, or any combination thereof.

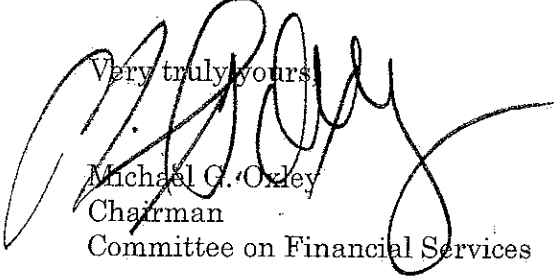
1. The CSPN guidelines are merely voluntary guidelines. There should be some mechanism to ensure that investors actually benefit from the improvements proposed by these guidelines. Some have suggested that the Commission

must be given new statutory authority over 529 plans in order to meaningfully improve their disclosure practices and operational procedures.

2. A number of states discriminate against investors who choose out-of-state plans by not providing for tax relief on contributions to and withdrawals from such plans. Some have suggested that the definition of a qualified tuition savings plan be changed to include only plans from states that do not discriminate against out-of-state plans.
3. The fee disclosure by 529 plans needs significant reform. At a minimum, this reform should require that:
 - A. Plans use a standardized methodology for calculating fees and performance;
 - B. Plans use a standardized format for describing fees and performance, including a standardized location of that disclosure;
 - C. Plans include fee amounts in dollar terms as well as percentages;
 - D. Plans disclose information describing the allocation of fees, whether it is used for purposes to further the savings plan program or unrelated to the savings plan program;
 - E. Investors receive information regarding investor education programs in order to gauge whether these plans are a suitable investment option; and
 - F. There is a disclosure delivery requirement, so that investors will actually receive this improved disclosure in a timely manner.
4. Plans should fully explain the process and criteria used to select investment advisory partners. The terms of the advisory contracts should be fully disclosed, including any benefits the states will receive and how their choice serves citizens.
5. Plans should provide investors with performance information alongside relevant benchmarks reflecting the asset classes in which the investment options are invested and a written commentary explaining why the investment options did better or worse than their benchmarks.
6. At least one low-cost investment option, such as a broad-based index fund or low-cost actively-managed fund, should be provided.

I look forward to continuing our work together on this critical issue of saving and investing for higher education. Thank you again for your exemplary leadership.

Very truly yours,


Michael G. Oxley
Chairman
Committee on Financial Services

The Honorable William H. Donaldson

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cc: The Honorable Barney Frank, Ranking Member, Committee on Financial
Services
The Honorable Richard H. Baker, Chairman, Subcommittee on Capital
Markets, Insurance and Government Sponsored Enterprises
The Honorable Paul E. Kanjorski, Ranking Member, Subcommittee on
Capital Markets, Insurance and Government Sponsored Enterprises